

Message Text

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INFO OCT-01 ISO-00 L-03 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
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R 081214Z SEP 78
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 5370

UNCLAS SECTION 01 OF 03 TEL AVIV 12001

E.O. 11652: NA
TAGS: EINV, IS
SUBJECT: FINAL CHANGES IN LAWS AND REGULATIONS REGARDING
INVESTMENT INCENTIVES

REF: TEL AVIV 6298

1. ON JULY 18, THE KNESSET GAVE FINAL APPROVAL TO CERTAIN
 - CHANGES AND AMENDMENTS TO THE INVESTMENT ENCOURAGEMENT
 - LAW (AMENDMENT NO. 17) AND THE INDUSTRY ENCOURAGEMENT
 - LAW (AMENDMENT NO. 6). THE CHANGES WILL BE EFFECTIVE
 - AUGUST 7, 1978. HOWEVER, ALL INCOME TAX INCENTIVES
 - WILL BE RETROACTIVE TO APRIL 1, 1978. REFTEL REPORTED
 - CHANGES TO THESE LAWS WHEN SUCH CHANGES WERE FIRST
 - INTRODUCED. FINAL KNESSET ACTION MODIFIED CHANGES
 - LISTED IN REFTEL AS FOLLOWS:

2. SECTION 2.E OF REFTEL TO BE MODIFIED AS FOLLOWS:
 - RECOGNIZED ENTERPRISE AND APPROVED LOAN IN ISRAELI
 - CURRENCY ARE ELIMINATED AS SPECIAL CATEGORIES.
 - APPROVED SPECIALIST, APPROVED LOAN, APPROVED INVEST-
 - MENT, APPROVED RENTAL HOUSING PROPERTY, AND INDUSTRIAL
 - -BUILDING FOR RENT (SUBMITTED AS PART OF AN APPROVED
 - ENTERPRISE WILL CONTINUE TO EXIST. APPROVED PROPERTY

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- STATUS WILL CONTINUE BUT WILL ONLY APPLY TO A
- SPECIFIC LIST OF PROPERTIES APPROVED BY THE GOVERN-
- MENT. IT IS THE INTENTION TO INCLUDE IN THIS
- CATEGORY PROPERTIES LIKE HOMES FOR THE AGED, CLINICS,
- ETC. IN DEVELOPMENT ZONES A AND B. APPROVED
- SPECIALIST STATUS WOULD NOT BE GIVEN TO AN EX-
- RESIDENT OF ISRAEL (STARTING APRIL 1, 1979).

3. SECTION 2.F OF REFTEL: AMENDMENT 15 TO THE LAW

- (RONNEL) WILL BE CHANGED AS FOLLOWS:
 - A. APPROVED INDUSTRIAL COMPANIES, APPROVED SHIPPING COMPANIES, AS WELL AS COMPANIES LEASING EQUIPMENT AND INDUSTRIAL BUILDINGS WHICH DERIVE AT LEAST 70 PERCENT OF THEIR INCOME FROM LEASING EQUIPMENT OR BUILDINGS TO APPROVED ENTERPRISES, WILL BE CLASSIFIED AS ELIGIBLE FOR EQUITY MAINTENANCE ALLOCATIONS. HOTELS HAVE BEEN EXCLUDED FROM ELIGIBILITY.
 - B. THE REGULATIONS DEFINING CURRENT ASSETS AND LIABILITIES DESCRIBED IN SECTION F.2 OF REFTEL REMAIN THE SAME.
 - C. THE NEW METHOD OF COMPUTING THE EQUITY MAINTENANCE ALLOCATION WILL APPLY TO ENTERPRISES WITH MORE THAN 49 PERCENT FOREIGN OWNERSHIP AS FOLLOWS:
 - A COMPANY WILL BE ALLOWED TO DEDUCT FROM ITS INCOME BEFORE TAX THE SUMS CREATED BY THE FOLLOWING FORMULA: EQUITY CAPITAL (DEFINED AS SHARE CAPITAL AND PROFITS THAT CAN BE DISTRIBUTED) TIMES THE ADJUSTMENT FACTOR CALCULATED AS THE DIFFERENCE BETWEEN THE RATE OF EXCHANGE AT THE END OF THE TAX YEAR AND THE RATE OF EXCHANGE AT THE BEGIN-
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- NING OF THE TAX YEAR DIVIDED BY THE RATE OF EXCHANGE AT THE BEGINNING OF THE TAX YEAR.
- D. PERIOD OF BENEFITS - TEN YEARS. THE FIRST YEAR FOR CLAIMING BENEFITS IS ISRAELI FISCAL YEAR 1978.
- E. THE INVESTOR IS ALLOWED TO CHOOSE ONE OF TWO TAX CONCESSIONS, EITHER THE TWO YEAR DEPRECIATION OF NEW INDUSTRIAL MACHINERY, AND EQUIPMENT AND REVALUATION OF INVENTORY, OR THE EQUITY MAINTENANCE ALLOCATION.

4. SECTION 2.G OF REFTEL TO BE CHANGED AS FOLLOWS:

- ELIGIBILITY CRITERIA FOR APPROVED ENTERPRISE STATUS WILL BE:
- A. THE PROJECT SHOULD NOT BE FOR THE PRODUCTION OF PRODUCTS APPEARING ON A NEGATIVE LIST. THE LIST, COMPILED BY THE DIRECTOR GENERAL OF THE MINISTRY OF INDUSTRY, TRADE AND TOURISM INCLUDES PRODUCTS NOT CONSIDERED BENEFICIAL FROM THE VIEWPOINT OF THE NATIONAL ECONOMY. ENTERPRISES MANUFACTURING

- PRODUCTS APPEARING ON THE "NEGATIVE LIST" WILL
 - BE "APPROVED" ONLY IF THE BULK OF THEIR PRODUCTION
 - SUCH A STATUS HAVE BEEN DETERMINED BY THE
 - MINISTRY. HOWEVER, IN A TOWNS THIS EXPORT
 - REQUIREMENT IS WAIVED.
-
- B. THE EXISTING CRITERIA FOR CAPITAL STRUCTURE WILL
 - REMAIN IN EFFECT. HOWEVER, AN INVESTMENT PRO-
 - JECT EXCEEDING IL. 100 MILLION SHOULD HAVE AT
 - LEAST 30 PERCENT PAID-UP CAPITAL IN ALL ZONES.

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COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
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- C. ENTERPRISES LOCATED IN ZONE C MUST EXPORT AT
 - LEAST 25 PERCENT OF THEIR TURNOVER.
-
- D. SECTION G.4 OF REFTEL TO BE DELETED.

5. THE LAW OF ENCOURAGEMENT OF INDUSTRY (TAXES) 1978
- (SECTION 3.A OF REFTEL) TO BE CHANGED AS FOLLOWS:

- A. THE MAXIMUM CORPORATE INCOME TAX FOR INDUSTRIAL
 - COMPANIES WILL BE 20 PERCENT (MAKING A TOTAL TAX
 - BURDEN OF 52 PERCENT) IF THE COMPANY WILL RE-
 - INVEST AT LEAST THE VALUE OF ITS ASSETS SOLD
 - DURING THE YEAR AND 30 PERCENT OF ITS PROFITS
 - DURING A PERIOD OF THREE YEARS.
-
- B. COMPANIES ELIGIBLE FOR A 50 PERCENT DEPRECIATION
 - OF EQUIPMENT, REVALUATION OF INVENTORY AND
 - INCOME TAX BENEFITS ARE:

- 1. INDUSTRIAL COMPANIES (90 PERCENT OF THEIR ACTIVITIES ARE INDUSTRIAL).
 - 2. EQUIPMENT LEASING COMPANIES (70 PERCENT OF THEIR ACTIVITIES ARE FROM LEASING EQUIPMENT
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- TO INDUSTRY).
 - 3. SHIPPING (SHIPOWNING COMPANIES).
 - 4. CONTAINER COMPANIES.
 - 5. HOTELS (ELIGIBLE FOR INCOME TAX BENEFITS ONLY).
6. SECTION 4.B OF REFTEL SHOULD BE CHANGED BY ADDING:
- VOCATIONAL TRAINING FACILITIES TO THE PURCHASED KNOW-
 - HOW AND RUNNING-IN EXPENSES.
7. SECTION 4.D OF REFTEL TO BE CHANGED AS FOLLOWS:
- THE INTEREST RATES FOR SUBSIDIZED DEVELOPMENT LOANS
 - ARE CURRENTLY AS FOLLOWS:
 - 19 PERCENT FOR DEVELOPMENT AREA A;
 - 22 PERCENT FOR AREA B; AND
 - 25 PERCENT FOR AREA C.
 - THESE RATES ARE SUBJECT TO REVISION ACCORDING TO THE
 - INCREASE IN THE COST-OF-LIVING INDEX.
8. SECTION 5 OF REFTEL SHOULD BE CHANGED TO READ AS
- FOLLOWS: THE CHANGES WERE APPROVED BY THE KNESSET
 - (SECOND AND THIRD CALLS) ON JULY 18, 1978 (ALL RIGHTS
 - RECEIVED ACCORDING TO THE OLD LAW ARE STILL VALID).

- A. ALL GRANTS RELATED CLAUSES WILL BE APPLICABLE TO
- ENTERPRISES APPROVED AFTER AUGUST 7, 1978 (20
- DAYS AFTER THE APPROVAL OF THE LAW BY THE KNESSET)
- OR ON THE DAY OF PUBLICATION, WHICHEVER IS
- EARLIER.

- B. ALL INCOME TAX RELATED CLAUSES ARE EFFECTIVE
- BEGINNING ISRAELI FISCAL YEAR 1978.

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- C. ALL THOSE WHO SUBMITTED APPLICATIONS THAT WERE
- NOT APPROVED UNTIL AUGUST 7, 1978 ARE ALLOWED
- THE CHOICE OF RECEIVING EITHER THE PACKAGE OF

- OLD INCENTIVES OR THE NEW ONES BY NOTIFYING THE
- DIRECTOR OF THE INVESTMENT CENTER WITHIN THREE
- MONTHS (STARTING AUGUST 7).

- D. ALL THOSE WHO RECEIVED THEIR APPROVALS AFTER
- NOVEMBER 1, 1977, AND THEIR PROJECTS ARE ELIGIBLE
- FOR APPROVAL ACCORDING TO THE NEW LAW, ARE ALLOWED
- TO CHOOSE THE NEW PACKAGE BY NOTIFYING THE DIREC-
- TOR OF INVESTMENT CENTER WITHIN THREE MONTHS. IF
- INVESTORS PREFER THE NEW PACKAGE, THEY SHOULD
- PAY BACK ALL EXCESS GRANTS AND EXEMPTION OF
- INDIRECT TAXES COMPARED TO THOSE THEY ARE ENTITLED
- UNDER THE NEW LAW, PLUS 26 PERCENT INTEREST FROM
- THE DATE SUCH GRANTS AND EXEMPTIONS WERE RECEIVED.

COMMENT: THE KNESSET ACTION ON JULY 18 PASSED WITH HARDLY A COMMENT IN THE PRESS. MORE THAN SIX WEEKS AFTER THE KNESSET ACTION, THE INVESTMENT AUTHORITY HAS NOT ISSUED A REVISION OF ITS PREVIOUS PUBLICATIONS IN ENGLISH EXPLAINING, OR INCORPORATING INTO THE LAW, THE RECENT CHANGES. (AS SOON AS SUCH PUBLICATIONS BECOME AVAILABLE, THEY WILL BE FORWARDED BY THE EMBASSY). MOST BUSINESSMEN WERE RATHER BLASE ABOUT THE CHANGES IN THE INVESTMENT LAW. MOST OF THEIR INTEREST WAS IN THE CHANGE IN THE TAX PROVISIONS WHICH NOW ALLOWS AS AN OPTION 50 PERCENT DEPRECIATION OF THE INVESTMENT FOR TAX PURPOSES. THIS CHANGE IS DESIGNED TO ALLOW BUSINESSMEN TO COMPENSATE FOR THE HIGH RATE OF INFLATION AND FOR FOREIGN BUSINESSMEN TO COMPENSATE FOR THE DEPRECIATION OF THE ISRAELI

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POUND, SINCE THE LAW DOES NOT GUARANTEE THE FOREIGN

EXCHANGE VALUE OF THEIR INITIAL INVESTMENT. VIETS

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